

Director of Central Intelligence

~~Secret~~

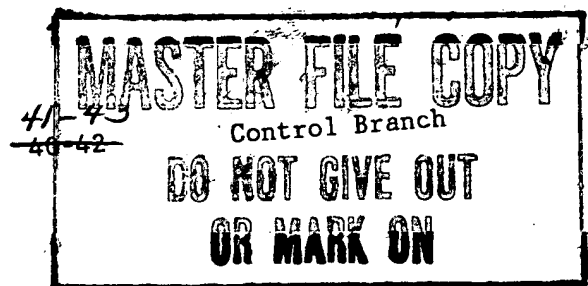
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Special National Intelligence Estimate

# Implications of Mexican Financial Problems

## Key Judgments



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SNIE 81-86W

IMPLICATIONS OF MEXICAN  
FINANCIAL PROBLEMS

KEY JUDGMENTS

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is being published separately  
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## KEY JUDGMENTS

Mexico's economic outlook has become grim indeed:

- The country's financial position, already shaky, is now made significantly more difficult by the sharp fall in oil prices.
- Mexico City has announced it needs \$9 billion in financial relief in 1986; we believe the needs are on the order of \$6-9 billion, depending on the level of adjustment undertaken.
- President de la Madrid  is confronted on all sides by political constraints that sharply limit his ability to take tough adjustment measures.
- Commercial banks are taking a hard line, and we expect many European banks will not want to provide substantial amounts of new money, leaving a larger share of the debt to US interests.

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The key variables at present are the price of oil and the nature of the supporting financial package that Mexico receives from outside:

- Should Mexico agree to a financial package in some combination of new money and concessions, we believe the government will promise to undertake economic reforms but, owing to domestic political constraints, fall far short of measures needed to prevent future financial problems or significantly improve the performance of the Mexican economy.
- Should the price of oil fall further or substantial financial assistance not be given, we believe Mexico will shortly begin to withhold interest payments selectively and may subsequently take additional unilateral actions.
- In our view, Mexico will implement significant economic reforms only if deteriorating economic conditions convince the ruling Institutional Revolutionary Party (PRI) that its grip on power is threatened. We give such a decision a low probability over the next year, and in any case it will become more difficult to make as the PRI gets closer to the 1988 presidential elections.

If Mexico succeeds in negotiating significant new money and interest rate concessions, other debtors will put strong pressure on banks to match the terms. In the event Mexico takes unilateral action to limit its debt burden, we do not believe other debtors will act immediately in

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concert to follow the Mexican lead. Even so, because of similar economic pressures affecting other debtors and the precedents for unilateral action, others could decide to follow suit. The prospects for radical action by other debtors would increase if they perceived that Mexico was not suffering as a result of its actions.

Politically, an outcome that includes substantial new lending or concessions from creditors will underscore Mexico's growing economic dependence on US and other creditors. However, we believe that, in terms of US ability to influence Mexico's foreign policy, the changes will be marginal.

Alternatively, in the less likely event Mexico City cannot negotiate a settlement and takes unilateral action, the de la Madrid administration would blame Washington and the Western financial community for its own problems. Mexico City probably would pursue a more nationalistic foreign policy.

Overall, the most likely outcome for the near term will be one of semibailout, minimal Mexican reforms, and growing economic dependence on the United States. Whether or not such an outcome evolves in coming weeks, the longer term financial outlook for Mexico—and for US interests—is troubling. Economic conditions within Mexico almost certainly will deteriorate over the next two to three years, and dissatisfaction with the stewardship of the ruling PRI will rise significantly.

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